DEFENSE ACQUISTION UNIVERSITY
BUSINESS, COST ESTIMATING, & FINANCIAL MANAGEMENT DEPARTMENT

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TEACHING NOTE

OBLIGATION AND EXPENDITURE PLANS

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OVERVIEW

Obligation plans and ***expenditure plans*** (also called ***"Spending Plans"***) are written forecasts of the planned execution of program funds, i.e., when during the fiscal year funds are expected to be ***obligated*** (e.g., by signing a contract) or ***expended*** (e.g., by sending the contractor a check). The Business Financial Manager (BFM) is usually responsible for building and submitting these plans to the Service Headquarters.

Spending plans are required for each line item in Procurement appropriations, for each program element for RDT&E appropriations and for each sub-activity group for Operations and Maintenance appropriations. Obligation and expenditure plans are prepared for each appropriation that is available for obligation. For example, Procurement appropriation spending plans would be prepared for the current fiscal year and the two prior fiscal years assuming that some funds from those years remained unobligated. Similarly, spending plans for RDT&E appropriations are developed for the current fiscal year and the year prior. In addition, expenditure plans are required for each fiscal year of an appropriation that is not yet ***liquidated*** (i.e., fully expended), even if its period of availability has expired.

PURPOSES OF SPENDING PLANS

Obligation and expenditure plans are used for many purposes. One major purpose is to allow rational decision-making regarding the redistribution of funds among programs. Spending that is behind plan presents a "flag" to the Program Executive Officer (PEO) and local comptroller that may indicate that a program will not be able to use its funds effectively during the period of obligation availability. The PEO and local comptroller will investigate causes and may determine that other programs under their cognizance can spend funds in a more timely manner. Service Headquarters and USD (Comptroller) personnel analyze programs' actual obligation and expenditure data for trends to determine if those programs' budget requests are likely to be executed efficiently.

Preliminary spending plans may be aggregated at the DoD level to support the President's Budget request and Congressional enactment of that budget by identifying the timing and use of the budget authority requested. This data also provides the U.S. Treasury with information regarding projected outlays.

The acquisition community uses the obligation and expenditure plans and actuals as a "report card" for program managers. Spending plans and actuals are part of the quarterly reviews or briefings to the PEO. Using this information, the PEO can make decisions regarding sources of funding for emergent requirements and provide direction to local comptrollers to reprogram funds as appropriate among acquisition programs under the PEO's cognizance.

DEVELOPING SPENDING PLANS

Program offices base their forecasts on the President's Budget submission, taking into account any known congressional actions on that budget (e.g., cuts or plus-ups). Spending plans assume that program direction and funding will be available at a particular point in time enabling the program to meet advertised obligation and expenditure dates. Further, spending plans will depict all funds as they are expected to be obligated in the current year. Commands and Service Headquarters consolidate the plans by appropriation. After consolidation and review, the composite plan is submitted to the service headquarters comptroller and OSD Comptroller.

OSD and service/components provide "benchmarks" as a guide to develop forecasts. Benchmarks used by OSD and Service budget analysts to evaluate programs' execution performance are derived from historical information in the official accounting records. Thus, common delays inherent in the accounting process are automatically accounted for in these benchmarks, and will not generally be accepted as an explanation of why the program appears to be behind in its execution. However, if the program can present credible evidence that unusual delays or errors have occurred in the processing of its obligations or expenditures (e.g., postings to the wrong fund cites), this will usually be accepted and considered by the analyst in making recommendations for the program.

In addition to benchmarks, budget analysts should consider other realities. A spending plan should not be prepared in a vacuum. The budget analyst should coordinate with the Procuring Contracting Officer's procurement schedule. Type of solicitation, special clauses, modifications, etc., may influence the forecast. Likewise, field activities should be consulted regarding the type of work to be performed. For example, if the field activity is to perform the majority of work in-house, then a ***reimbursable*** document is used, and the obligation plan will project the obligation upon acceptance of that document by the field activity. However, if the majority of the work is to be contracted out by the field activity, then a direct citation document is used, and the obligation plan must project the occurrence of the obligation based on when the contract is to be awarded by the field activity.

Another consideration involves projections for the early days of a new fiscal year as well as the final days of a fiscal year. Care should be taken not to be too optimistic regarding obligations in the beginning of the year because of the time required for apportionment and the threat of operation under Continuing Resolution Authority (CRA) due to lack of an enacted appropriations bill. Until the apportionment process is completely electronic, a few weeks should be allowed for the distribution of budget authority through the comptroller chain and PEO office. When a CRA is expected the local comptroller will request that program offices identify their firm requirements. CRA obligation plans identify those obligations that must take place to avoid a breach of contract or some other detrimental action. Comptrollers also pay attention to the ramp-up of projected obligations in the final weeks of a fiscal year. A significant projected ramp-up at the end may indicate the program office doesn't have firm requirements. Also, since contracting offices often imposes a "moratorium" on creating obligations in the final weeks of the fiscal year because procurement schedules are full, such a ramp-up may prove to be unexecutable.

USE OF SPENDING PLANS DURING BUDGET EXECUTION

Planned and actual obligations and expenditures are reviewed monthly. When there are significant "variances" or deviations, the program office provides written explanations to the next level of the reporting chain via a deviation report. Usually, a variation of plus or minus 5% to 10% triggers a requirement to explain. Higher headquarters then analyze these variance reports and provides recommendations to decision-making officials. Recommendations can vary from doing nothing to reprogramming all the budget authority away from a program to efficiently manage scarce funding.

Spend plans are updated at various intervals. An initial plan is developed as part of the internal service headquarters budget review (summer). It is updated in advance of the change of the fiscal year (fall). Finally, it is revised at the end of the first quarter to reflect any congressional changes, CRA results or adjustments during apportionment (taxes). The obligation plan is then locked for the duration of the fiscal year. It is this January profile that becomes the baseline used for budget execution analysis.

OSD Comptroller analysts focus on obligations for Procurement appropriations and on expenditures for RDT&E appropriations. For example, budget analysts might expect the program to have obligated at least 80% of the Procurement funds it received by the end of the first year of execution of those funds. They might also expect the program to have expended at least 55% of its RDT&E funds in the first year of execution. If the program's spending does not reach these levels, or if the program's obligation and/or expenditure performance is significantly behind its stated plan, this is an indication that the program is falling behind schedule and may not be able to utilize its allotted budget authority.

CONCLUSION

Although budget execution is the last stage of the budget process, it can be the most trying. Programs are "sold" through command channels to Service Headquarters to get their share of resources, then defended through the Program and Budget Review processes at both the service and OSD levels. Having survived these scrubs, the program funding is submitted as part of the President's Budget to Congress, where it must also be defended to survive congressional scrutiny. All of this effort that went into the programming, budgeting, and enactment processes may be in vain if the program fails to execute its funds in a timely manner.

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